Report

of the

Examination of

Manitowoc Mutual Insurance Company

Reedsville, Wisconsin

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 30, 2002

Honorable Connie O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MANITOWOC MUTUAL INSURANCE COMPANY
Reedsville, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1997 as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records

Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results", contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers.

Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1874, as Manitowoc Rapids Farmers' Mutual Insurance Company, a town mutual insurance company. The company changed its name to Manitowoc County Mutual Insurance Company through subsequent amendments to its articles and bylaws. Effective January 1, 1996, Manitowoc County Mutual Insurance Company converted from a town mutual insurance company to a limited assessable mutual insurance company and changed its name to that presently used; the company became non-assessable as of February 1, 2000. Hartland-Richmond Town Mutual Insurance Company merged into the company effective March 1, 1996; Eastern Mutual Insurance Company merged into the company effective October 1, 1996; and Liberty Grove Mutual Insurance Company merged into the company effective January 1, 1997. In 2000, Mishicot Town Mutual Insurance Company was merged into the company effective January 1, 2000; Crystal Lake-Utica Mutual Insurance Company was merged into the company effective February 1, 2000.

On March 10, 1997, Manitowoc Mutual Insurance Company created an agency subsidiary company, Pine Insurance Agency, Inc. Further discussion of the agency is made in the section of the report captioned, Affiliated Companies.

The effect of the 1996 merger with Hartland-Richmond Town Mutual Insurance Company was as follows:

Increase in assets	$468,485
Increase in liabilities	200,884
Increase in surplus	267,601

The effect of the 1996 merger with Eastern Mutual Insurance Company was as follows:

Increase in assets	$867,727
Increase in liabilities	102,419
Increase in surplus	765,308

The effect of the 1997 merger with Liberty Grove Mutual Insurance Company was as follows:

Increase in assets	$166,378
Increase in liabilities	43,825
Increase in surplus	122,553

The effect of the 2000 merger with Mishicot Town Mutual Insurance Company was as follows:

Increase in assets	$347,254
Increase in liabilities	86,115
Increase in surplus	261,139

The effect of the 2000 merger with Crystal Lake-Utica Mutual Insurance Company was as follows:

Increase in assets	$1,359,976
Increase in liabilities	621,452
Increase in surplus	738,524

The company writes direct premium in thirty-three counties in the state of Wisconsin.

The major products marketed by the company include farmowners, homeowner’s, commercial, fire, allied lines, and inland marine lines of business. The major products are marketed through seventy-seven agents/agencies. Further comments on this topic are found in the section of this report captioned “Agent Records.”

The company compensates agents on the following basis:

Renewal	**New**	
On all business: Homeowner, Mobile Homeowner, and Preferred Homeowners, Renters, Dwelling Fire and Commercial	20%	18%
On all business: Farmowners, Farm Fire and Agri-hobby Farmowners	15%	14%

The following table is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 273,694	$0	$ 97,559	$ 176,135
Allied lines	214,732	0	76,542	138,190
Farmowners multiple peril	1,544,967	0	550,707	994,260
Homeowners multiple peril	1,445,511	0	515,256	930,255
Commercial multiple peril	388,297	0	138,409	249,888
Inland marine	56,487	0	20,135	36,352
Total All Lines	$3,923,688	$0	$1,398,608	$2,525,080

The company plans to continue writing the same type of business and not enter into any new lines. The company's goal is to expand its operations in a controlled manner in order to increase their book of business, and to spread its risk exposure and increase surplus. The company believes it can accomplish this by acquiring some additional companies, by maintaining quality underwriting, by handling claims fairly and efficiently, and by providing accurate and timely financial and statistical reports to properly manage its operations.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors had consisted of nine members, but as a result of mergers the board of directors increased to sixteen by 1996. The company's changes in officers/directors from the prior examination were the following: Two directors did not renew their terms in 1999; one director did not renew his term in 2000; and another director did not renew his term in 2001. Finally, one board member resigned in 2001. During 2000, five directors were added due to the Mishicot Mutual and Crystal Lake-Utica mergers. The addition of these members was done in accordance with the bylaws of the company as restated during the conversion from a town mutual insurer and pursuant to terms included in the plans of merger of the two insurers which merged into the company in 2000. As a result, the company's board of directors remains at sixteen members

Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other board of directors in the holding company group. The company no longer has an Advisory Committee. The board members currently receive a director's fee of $100 per meeting attended, plus compensation for attendance at the following rates:

Executive committee	$75 per meeting
District meeting	75 full day; $50 one-half day
Convention attendance	100; Maximum 2 days
Annual meeting attendance	100
Finance committee	50 per meeting
Loss Adjusting committee	50 per meeting
Underwriting	50 per meeting
Merger committee	50 per meeting
Legal committee	50 per meeting
Reinsurance committee	50 per meeting
Building committee	50 per meeting

The board of directors is also compensated for mileage when traveling to conventions or meetings other than regular meetings. The compensation is equivalent to the IRS rate, currently, $.345 per mile.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Elmer Phipps Brillion, WI	Farmer	2002
Lester Cherney Whitelaw, WI	Insurance Agent and MMIC Executive Vice-President/Manager	2002
Alan Tauchen Bonduel, WI	Farmer	2002
Bruce Deuchert Green Bay, WI	Insurance Agent	2002
Lyle Hill Sister Bay, WI	Insurance Agent and Fruit Grower	2002
Arthur Dee Coloma, WI	Insurance Agent and Retired Banker	2003
Otto Kral Green Bay, WI	MMIC Vice President - Loss Control	2003
Donald Risch Cato, WI	MMIC President, Real Estate Sales, Insurance Agent	2003
Marian Schneider Chilton, WI	Insurance Agent and MMIC Secretary	2003
Allan Shambeau Two Rivers, WI	MMIC Vice President and Retired Farmer	2003
James Tritt Omro, WI	Farmer	2003
Roger Busse Manitowoc, WI	Truck Driver and Part-time Inspector	2004
Russell Brandl Whitelaw, WI	Insurance Agent	2004
James Froelich Manitowoc, WI	Retired Traffic Officer	2004
John Stangel Manitowoc, WI	Attorney	2004
Caspar Wallrich Cecil, WI	Insurance Agent and MMIC Treasurer	2004

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	Compensation
Donald Risch	President	$ 3,000
Lester Cherney	Executive Vice President/Manager	49,210
Otto Kral	Vice President Loss Control	36,000
Allan Shambeau	Vice President	0
Caspar Wallrich	Treasurer	500
Marian Schneider	Secretary	500

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Donald Risch, Chair
Bruce Deuchert
Allan Shambeau
Marian Schneider

Underwriting Committee
Allan Shambeau, Chair
Caspar Wallrich
Roger Busse
Otto Kral
Joan Sheahan

Finance Committee
Arthur Dee, Chair
Lyle Hill
James Froelich

Loss Adjusting Committee
Otto Kral, Chair
Elmer Phipps
Alan Tauchen
Bruce Deuchert
Tom McMasters

Merger Committee
Marian Schneider, Chair
Allan Shambeau
Donald Risch
Caspar Wallrich

Legal Committee
John Stangel, Chair
James Froelich
Marian Schneider
James Tritt
Otto Kral

Reinsurance Committee
Bruce Deuchert, Chair
Otto Kral
Lyle Hill
Caspar Wallrich
Robert Butters

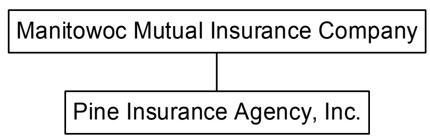
Building Committee
John Stangel, Chair
Roger Busse
Elmer Phipps
Russell Brandl
James Froelich

The board of directors forms committees for special purposes during the year. At the time of the examination, however, there were no special committees formed.

IV. AFFILIATED COMPANIES

Manitowoc Mutual Insurance Company is a member of a holding company system. It is the ultimate parent. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Manitowoc Mutual Insurance Company follows the organizational chart.

Organizational Chart
As of December 31, 2001



Pine Insurance Agency, Inc.

Pine Insurance Agency, Inc. (“Pine” or “the agency”), is wholly owned by Manitowoc Mutual Insurance Company. The agency was created as a result of the growing need to have an in-house agency to accommodate the smaller agencies who couldn’t get an agent’s contract to write umbrella, liability, and auto insurance. The company established the agency as a means to complement their insurance products, and to help those agencies retain the good Manitowoc business. Currently, there are a few agencies that still use the services of the agency, but not enough to make it a profitable entity. The company is considering dissolving the agency.

V. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one nonaffiliated ceding treaty. The treaty reviewed contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retention of risk complied with s. Ins 13.06, Wis. Adm. Code.

Nonaffiliated Ceding Contracts

Reinsurer:	Wisconsin Reinsurance Corporation
Effective Date:	January 1, 2001
Termination Provisions:	By either party giving 90 days' advance written notice, effective on contract anniversary date

The coverage provided under this treaty are summarized as follows:

1.	Type of contract:	Class A - Excess of Loss
	Lines reinsured:	All business written by the company classified as Casualty Business.
	Company's retention:	Reinsurer shall indemnify the Company for 100% of any loss including loss adjustment expense in excess of a net retention of $5,000 in respect to each and every loss occurrence. $1,000 deductible will be imposed where raw milk contamination occurs on an insured dairy farm.
	Coverage:	100% of each loss and loss adjusting expense occurring on the business covered by this exhibit, in excess of the company's retention, subject to maximum policy limits.
	Premium:	50% of the net premium written, for each and every policy issued on business covered by this exhibit as of January 1, 2001.
2.	Type of Contract:	Class B First Surplus
	Lines reinsured:	All property business written by the company and all business classified as property business assumed through the merger of Crystal Lake-Utica Mutual, effective April 1, 2000.
	Company's retention:	The company may cede on a pro rata basis up to $800,000 on a risk when the company's net retention is $350,000 or more. When the company's net retention is $350,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to 50% of such risk.

	Coverage:	Pro rata portion of each and every loss, including loss adjustment expenses, corresponding to the amount of the risk ceded.
	Annual Aggregate Deductible:	The company shall retain an amount equal to 10% of the loss and loss adjustment expenses otherwise recoverable hereunder.
	Premium:	The reinsurer shall pay 100% of the unearned premium applicable to business covered by this exhibit. All premiums, fees and assessments charged by the company corresponding to the amount of risk ceded hereunder.
	Commission:	Provisional commission of 15% of premium ceded on pro rata reinsurance amounts over $350,000 per risk; on pro rata reinsurance amounts less than $350,000 per risk a minimum commission of 15% shall be adjusted when the loss ratio is 65% or less. The minimum commission shall be increased by 1% for each 1% decrease in the loss ratio subject to a maximum commission of 35% when the loss ratio is 45% or less.
3.	Type of Contract:	Class C-1 First Layer Excess of Loss
	Lines reinsured:	All property business written by the company and all business classified Property business assumed through the merger of Crystal Lake Utica Mutual Insurance Company as of April 1, 2000.
	Company's retention:	Reinsurer shall indemnify 100% of any loss, including loss adjustment expense, in excess of $40,000 in respect to each and every risk, every loss occurrence. The company's retention is up to $60,000 in respect to each and every risk, each and every loss occurrence.
	Premium:	Calculated by applying to the company's net written premium, the rate developed by taking the sum of the four year's losses incurred by the reinsurer, divided by the total of the net premiums written for the same period, multiplied by the factor of 100/80ths plus the quota share recovery rate. Minimum rate: 5% of current net premiums written Maximum rate: 22% of current net premiums written The rate for the current annual period is 10.48%
4.	Type of Contract:	Class C-2 Second Layer Excess of Loss
	Lines reinsured:	All property business written by the company and all business classified as Property business assumed through the merger of Crystal Lake-Utica Mutual Insurance Company effective April 1, 2000.

	Coverage and Limits:	100% of any loss, excluding loss adjustment expense, in excess of $100,000, in respect to each and every risk resulting from one loss occurrence. Limit of $250,000 in respect to each and every loss occurrence.
	Premium:	2% of subject net premiums written with a minimum premium of $58,000 paid in equal monthly installments.
5.	Type of Contract:	Class D/E Stop Loss
	Lines reinsured:	All business written by the company except for business classified as Umbrella Liability business.
	Coverage and limits:	100% of the company's aggregate net losses, excluding loss adjustment expenses, which exceed 67.5% of the company's net premiums written and subject to a minimum retention of $1,532,000.
	Premium:	Calculated by taking the sum of the eight years' losses divided by the net premiums written multiplied by the factor of 100/80ths. Deposit premium of $264,000 payable in equal monthly installments Minimum rate: 5% of the current net written premiums Maximum rate: 15% of the current net written premiums The rate for the current annual period is 8%.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as results of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Manitowoc Mutual Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,466,075	$0	$1,466,075
Stocks:			
Preferred stocks	393,474	0	393,474
Common stocks	1,361,195	0	1,361,195
Mortgage loans on real estate:			
First liens	46,155	7,419	38,736
Real estate:			
Occupied by the company	572,161	0	572,161
Cash	487,937	0	487,937
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	116,381	0	116,381
Premiums, agents' balances, and installments booked but deferred and not yet due	483,261	0	483,261
Reinsurance recoverable on loss and adjustment payments	285,883	0	285,883
Federal and foreign income tax recoverable and interest thereon	611,787	611,787	0
Electronic data processing equipment and software	46,719	20,650	26,069
Interest, dividends, and real estate income due and accrued	31,654	0	31,654
Other assets nonadmitted:			
Furniture, equipment, and supplies	73,376	73,376	0
Total Assets	$5,976,058	$713,232	$5,262,826

Manitowoc Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Losses	$ 31,707
Loss adjustment expenses	40,617
Commissions payable, contingent commissions, and other similar charges	175,873
Other expenses (excluding taxes, licenses, and fees)	15,971
Taxes, licenses, and fees (excluding federal and foreign income taxes)	167
Unearned premiums	1,887,020
Ceded reinsurance premiums payable (net of ceding commissions)	159,341
Write-ins for liabilities:	
Premium Paid in Advance	30,167
Uncashed Check Liability	633
Refunds Payable	370
Total Liabilities	2,341,866
Unassigned funds (surplus)	2,920,960
Surplus as Regards Policyholders	2,920,960
Total Liabilities and Surplus	$5,262,826

Manitowoc Mutual Insurance Company
Summary of Operations
For the Year 2001

Underwriting Income	
Premiums earned	$2,510,246
Deductions:	
Losses incurred	2,017,732
Loss expenses incurred	85,090
Other underwriting expenses incurred	1,211,180
Total underwriting deductions	3,314,002
Net underwriting gain or (loss)	(803,756)
Investment Income	
Net investment income earned	130,101
Net realized capital gains or (losses)	38,658
Net investment gain or (loss)	168,759
Other Income	
Finance and service charges not included in premiums	256,202
Write-ins for miscellaneous income:	
Miscellaneous Income	2,270
Total other income	258,472
Net income (loss) before dividends to policyholders and before federal and foreign income taxes	(376,525)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes	(376,525)
Net Income [Loss]	$ (376,525)

Manitowoc Mutual Insurance Company
Cash Flow
As of December 31, 2001

Premiums collected net of reinsurance	$2,368,164		
Loss and loss adjustment expenses paid (net of salvage or subrogation)	1,644,772		
Underwriting expenses paid	1,026,162		
Cash from underwriting		$ (302,770)	
Investment income (net of investment expense)		148,184	
Other income (expenses):			
Write-ins for miscellaneous items:			
Miscellaneous Income		2,270	
Finance & Service Charges		256,202	
Total other income		258,472	
Net cash from operations			$103,886
Proceeds from investments sold, matured, or repaid:			
Bonds	424,061		
Stocks	961,203		
Mortgage loans	73,793		
Real estate	55,500		
Total investment proceeds		1,514,557	
Cost of investments acquired (long-term only):			
Bonds	75,864		
Stocks	985,398		
Real estate	405,167		
Total investments acquired		1,466,429	
Net cash from investments			48,128
Cash provided from financing and miscellaneous sources:			
Other cash provided		42,027	
Cash applied for financing and miscellaneous uses:			
Other applications		96,004	
Net cash from financing and miscellaneous sources			(53,977)
Net change in cash and short-term investments			98,037
Reconciliation			
Cash and short-term investments, December 31, 2000			389,900
Cash and short-term investments, December 31, 2001			$ 487,937

Manitowoc Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets		$5,262,826	
Less liabilities		2,341,866	
Adjusted surplus			$2,920,960
Annual premium:			
Lines other than accident and health	2,525,080		
Factor	20%		
		560,016	
Compulsory surplus (subject to a minimum of $2 million)			2,000,000
Compulsory surplus excess (or deficit)			$ 920,960
Adjusted surplus (from above)			$2,920,960
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			2,800,000
Security surplus excess (or deficit)			$ 120,960

The company passed the compulsory surplus requirements for 2001.

Manitowoc Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards to policyholders

during the period under examination as reported by the company in its filed annual statements:

	1997	**1998**	**1999**	**2000**	**2001**
Surplus, beginning of year	$2,680,354	$2,790,751	$2,663,308	$3,039,364	$3,474,513
Net income	125,076	(261,593)	220,460	(543,385)	(376,525)
Net unrealized capital gains or (losses)	(16,283)	128,008	156,211	(24,376)	(82,369)
Change in net deferred income tax	0				192,266
Change in non-admitted assets	1,604	6,142	(615)	3,247	(279,506)
Write-ins for gains and (losses) in surplus:					
Addition to Surplus Due to Mergers				999,663	
Mortgage In Default					(7,419)
Surplus, end of year	$2,790,751	$2,663,308	$3,039,364	$3,474,513	$2,920,960

Manitowoc Mutual Insurance Company
Insurance Regulatory Information System
For the One-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Manitowoc Mutual has been required to file with the NAIC since 1996. Ratios denoted with an asterisk as exceptional may be due to incomplete data. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1997	1998	1999	2000	2001
#1	Gross Premium to Surplus	69%	75%	69%	113%	134%
#2	Net Premium to Surplus	49	55	49	91	86
#3	Change in Net Writings	11	9	1	37*	-21
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	109*	105*	99	105*	115*
#6	Investment Yield	5.3	5.3	5.5	5	3*
#7	Change in Surplus	8	-4*	14	1	-12*
#8	Liabilities to Liquid Assets	30	31	31	45	53
#9	Agents' Balances to Surplus	0	0	0	2	4
#10	One-Year Reserve Devel. To Surplus	-1	-4	-3	-1	-2
#11	Two-Year Reserve Devel. To Surplus	0	-1	-4	-5	-2
#12	Estimated Current Reserve Def. To Surplus	0	0	-3	1	1

Ratio No. 3 measures the company's change in net premiums written over the prior year. The exceptional result in 2000 was due to the company assuming business as a result of the mergers in 2000. Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2001 and 2000 were due to the some unusually severe storms resulting in numerous claims in 2001 and 2000. In 1998 and 1997, exceptional results were also noted due to widespread damage from windstorms across the entire state, and the Company assumed a block of business as a result of the Liberty Grove Mutual Insurance Company in 1997 that had a high loss ratio. Ratio No. 6 measures the company's invested assets yield over prior year. The exceptional result in 2001 was due to market fluctuations in the stock market. Ratio No. 7, which measures the Company's Change In Surplus showed exceptional values in 1998 and 2001. In 1998, the Company had significant underwriting losses as a result of catastrophic losses due to windstorms, and in 2001 the company assumed a block of business from Crystal Lake-Utica Mutual Insurance Company and suffered substantial wind losses; since then much of this business has been re-underwritten or terminated.

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Growth of Manitowoc Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1997*	$5,272,231	$1,495,485	$3,776,746	$125,076
1998*	5,470,724	1,766,039	3,704,685	(261,593)
1999*	5,935,649	1,896,622	4,039,027	220,460
2000**	5,471,474	1,996,961	3,474,513	(543,385)
2001	5,262,826	2,341,866	2,920,960	(376,525)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1997*	$3,607,001	$1,875,181	$1,310,323	65.2%	52.6%	117.8%
1998*	3,697,248	2,079,758	1,384,770	82.2	39.9	122.1
1999*	4,077,010	2,321,210	1,419,146	64.2	39.6	103.8
2000**	3,912,786	3,176,654	2,716,085	81.3	41.4	122.7
2001	3,923,688	2,525,080	2,510,246	83.8	37.7	121.5

* These amounts are based upon the restated financial reports including the merged companies' results back to 1997.

** These amounts are Manitowoc Mutual Insurance Company's year-end 2000 reported amounts, which include all merged companies as of December 31, 2000.

As the above figures show, the company has experienced steadily declining assets and liabilities since 1999. Surplus has declined almost 28%, as a result of net losses due to severe storms that have occurred over the past two years. The combined ratio is indicative of the severe wind and hailstorm losses over the prior two years, as the May 2000 storm resulted in losses exceeding $10.5 Million. The company has not had an underwriting gain in the past five years.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

Surplus December 31, 2001, per Annual Statement			$2,920,960
Examination Reclassifications			
	Debit	**Credit**	
Short-term investments	$114,415.16		
Cash	29,143.52		
Money Market Fund		$143,558.68	
Total Reclassifications	$143,558.68	$143,558.68	$ 0
Surplus December 31, 2001, per Examination			$2,920,960

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were nineteen specific comments and recommendations in the previous examination report. Under the current period of examination, there were eight repeat recommendations. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records—It is recommended that minutes for all committees of the board of directors be maintained and included with the minutes of the board of directors meetings.

   Action—Noncompliance. See comments in the section of this report captioned "Corporate Records".

2. Conflict of Interest—It is recommended that the company's directors and officers disclose all potential conflicts of interest when completing the annual conflict of interest questionnaires.

   Action—Noncompliance. See comments in the section of this report captioned "Conflict of Interest".

3. Business Plan—It is recommended that the company update its business plan in writing to indicate the company's strategy for progress over the next five years.

   Action—Compliance.

4. Disaster Recovery Plan— It is recommended that the company document in writing, and periodically re-evaluate, its EDP disaster recovery plan.

   Action—Partial Compliance. It is recommended that the company update its disaster recovery plan to include the company's strategy for a management succession plan within the next five years.

5. Agents' Agreements—It is recommended that the company update its agents' agreements so that all agreements are in the name of Manitowoc Mutual Insurance Company.

   Action—Compliance.

6. Cash and Short-term Investments—It is also recommended that the company properly report money market accounts on Schedule DA of the Annual Statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty.

   Action—Noncompliance. See comments in the section of this report captioned "Cash and Short-Term Investments".

7. Mortgage Loans—It is again recommended that the company obtain recent appraisals on properties securing mortgage loans.

   Action—Compliance.

8. Mortgage Loan—It is recommended that the company include in its mortgage loan files documentation evidencing the current tax status of the property securing the mortgage loan, amortization schedules reflecting the current status of the mortgage loan, and evidence of adequate hazard insurance.

   Action—Compliance.

9. Mortgage Loans—It is recommended that the company accurately complete Schedule B of the Annual Statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty.

   Action—Non-Compliance. See comments in the section of this report captioned "Mortgage Loans".

10. Mortgage Loans—It is recommended that the company establish formal written underwriting guidelines for the acceptance of a mortgage loan which includes, but is not limited to, guidelines which do an extensive credit risk analysis of the potential mortgagee.

    Action—Non-Compliance. See comments in the section of this report captioned "Mortgage Loans".

11. Mortgage Loans—It is recommended that the company establish guidelines for the mortgage loan investment overall which includes, but is not limited to, the percentage of the company's assets to be invested in mortgage loans, the terms allowable for loans, the interest rate determination, and the policy on refinancing or extending the mortgage loan.

    Action—Non-Compliance. See comments in the section of this report captioned "Mortgage Loans".

12. Mortgage Loans—It is recommended that the company no longer allow the practice of allowing a mortgage loan to be held as a line of credit.

    Action—Compliance.

13. Mortgage Loans—It is recommended that the company comply with s. 611.60 Wis. Stat. including the proper reporting of all material transactions, in which a director has an interest, to this office.

    Action—Compliance.

14. Bonds and Stocks—It is recommended that the company comply with s. 610.23 Wis. Stat. by either taking custody of its investments nor held by brokers and maintaining them in a safety deposit box or placing them under a custodial agreement with a banking or trust company.

    Action—Compliance.

15. Bonds and Stocks—It is recommended that the company amend its safekeeping agreement so that:

    1. The custodian is required to hold securities separate and distinct from the other deposits with the custodian so that at all times they may be identified as belonging solely to Manitowoc Mutual Insurance Company;

2. The custodian is obligated to indemnify the company for any loss of securities of the insurance company in the bank or banking and trust company's custody occasioned by the negligence or dishonesty of the bank or banking and trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction; and

3. In the event that there is a loss of the securities for which the bank or banking and trust company is obligated to indemnify the company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

<u>Action</u>—Compliance.

16. <u>Bonds and Stocks</u>—It is recommended that the company accurately complete Schedule D of the Annual Statement on all future annual statements.

    <u>Action</u>—Non-compliance. See comments in the section of this report captioned "Bonds and Stocks".

17. <u>Bonds and Stocks</u>—It is recommended that the company submit all securities to the NAIC Securities Valuation Office for rating.

    <u>Action</u>—Non-compliance. See comments in the section of this report captioned "Bonds and Stocks".

18. <u>Bonds and Stocks</u>—It is recommended that the company establish a formal written investment policy which includes investment guidelines and objectives for all investments of the company; this policy should include, but is not limited to the percentage of the company's assets which will be invested in the different categories of investments.

    <u>Action</u>—Compliance.

19. <u>Loan Receivable from Agent</u>—It is recommended that the company, on all future annual statements, properly nonadmit loans receivable from agents in accordance with s. Ins. 6.20, Wis. Adm. Code.

    <u>Action</u>—Compliance.

Summary of Current Examination Results

The current examination findings and recommendations made therein include the following:

Management and Control

The latest CPA management letter indicated an inherent weakness in the internal control structure due to the lack of segregation of duties. Job duties appear to have been adequately separated, but limitations do exist because of the size of the company. Company management has taken steps to mitigate the weakness. The examiners noted there is active board participation, especially in the area of oversight of loss payments. Also, the board has established an annual financial detailed budget that is analyzed at monthly executive meetings. In addition, management is pursuing the hiring of another person or two to help in the daily recording, processing, summarizing, and reporting of financial data for the company.

Corporate Records

The company was to include the minutes of all committee meetings of the board as noted in the prior examination. Under the current examination period, the examiners again noted that there were no minutes of meetings for all committees of the board. Therefore, it is again recommended that minutes for all committees of the board of directors be maintained and included with the minutes of the board of directors.

The examiners also noted in reviewing the Company's organizational structure consisting of sixteen officers and directors, that six of these directors are agents for the company and four other directors are paid officers for the company. This is in violation of s. 611.51 (3), Wis. Stat, which requires that employees and representatives of a corporation may not constitute a majority of the board. It is recommended that the company comply with s. 611.51(3), Wis. Stat., as regards the composition of its board of directors.

. It was noted, during the examination that six directors have terms that expire in 2003, with four of these directors being ineligible for re-election due to their age. The examiner reviewed the Articles of Incorporation/Bylaws and noted the company is in compliance with their bylaws.

Agent Records

It was noted, during the examination that the company was unable to produce a listing of the number of independent agents. The examiners noted that with some of the mergers, the records were very difficult to follow and some records were missing. According to this office's Agent Licensing section, the company had 340 agents appointed, whereas the company's records showed 77 agents appointed. It is recommended that the company comply with s. 628.11, Wis. Stat., and accurately report its agent appointments and terminations to this office.

Conflict of Interest

During the period of examination, each director is to annually sign a form disclosing conflicts of interest. The prior examination required the company to establish procedures to insure this was done annually. However, during the examination, the examiners noted the following:

- The company could not produce conflicts of interest statements for any of the directors or officers in 2001.
- The company could not produce conflicts of interest statements for three of the directors in 2000.The company could not produce conflicts of interest statements for one of the directors in 1998.

It is again recommended that the company's directors and officers disclose all potential conflicts of interest when completing the annual conflict of interest questionnaires.

Business Plan

At the time of examination, the company did have a current business plan in writing that indicates the company's strategy for progress over the next five years.

Disaster Recovery Plan

When reviewing and discussing the EDP environment of Manitowoc Mutual, it was determined that the company outsources its Information Technology function to a third party and has adequately planned for continuing EDP operations in the event of a disaster. The company backs up all information daily and stores the information in the company vault. The company has complied with the prior examination recommendation of having a disaster recovery plan in writing that identifies its EDP disaster recovery plan. However, the disaster recovery plan does not contain a management succession plan in the event of a catastrophe.

The examiners discussed with the company manager what his future plans are with the company. The manager informed the examiners that he plans to retire sometime in 2003. The examiners asked if the board has knowledge of his pending retirement. The manager indicated that no formal letter of intent to resign as manager has been given to the board of directors for consideration. The manager did say he would notify the board at least six months to a year in advance of his retirement, so that the board would have sufficient time to find a replacement. It is recommended that the company update its disaster recovery plan to include the company's strategy for a management succession plan.

Agents' Agreements

A review was done of the agreements the company has with its agents. Agreements reviewed by examiners were properly drafted and all agreements are in the name of Manitowoc Mutual Insurance Company.

Holding Company

As discussed earlier in this report, the company owns a subsidiary company, Pine Insurance Agency, Inc.

Under the period of examination, the examiners noted that the company has not filed an annual holding company report with this office since its formation in 1997. Under s. Ins 40.03 (a), Wis. Adm. Code, every insurer who is authorized to do business in this state and which is a member of an insurance holding company system, and every person having or attempting to acquire control of such an insurer, shall register with the commissioner. Filing requirements – any person that is subject to registration under this section shall register within 15 days after it becomes subject to registration, and annually by June 1 of each subsequent year for the immediate preceding calendar year. It is recommended that the company file an annual holding company report by June 1 of each subsequent year for the immediately preceding calendar year in accordance with s. Ins. 40.03 (a), Wis. Adm. Code.

The examiners inquired into the company's compliance with the existing Office Lease and Service Agreement. The Office Lease and Services Agreement indicates that the amount of rent, postage, etc., charged by the agency, would be paid back to the company. The company hasn't been doing this because of the small amount of business that flows through the agency. It is recommended that the company properly comply with all agreements between the company and the agency in accordance with s. Ins 40.03 (3), (c), (5), Wis. Adm. Code.

Cash and Short-term Investments **$487,937**

The balances of $487,937 reported by the company consist of cash on hand and company checking accounts of $487,937 and short-term investments of $0. During the review of the cash accounts held by the company, it was noted that the company incorrectly reported money market accounts of $143,558.68 as cash accounts on Schedule E of the Annual Statement. Per the NAIC's <u>Annual Statement Instructions Property and Casualty,</u> money market accounts are to be reported on Schedule DA of the Annual Statement. The result of this incorrect reporting is a reclassification of those accounts to the proper schedule in the amount of $143,558.68. It is again recommended that the company report money market accounts on Schedule DA of the Annual Statement in accordance with the NAIC's <u>Annual Statement Instructions Property and Casualty.</u>

Mortgage Loans

Manitowoc Mutual has significantly reduced its mortgage loan balances from the prior examination, partly because borrowers have refinanced their loans with other lenders as mortgage rates are as low as they have been since the early 1970's. At the time of the examination, there was one outstanding mortgage loan as of December 31, 2001. The company plans to not make any more mortgage loans. However, the Board left the option open for possible future investments in mortgage loans. The company is substantially in compliance with the prior recommendation requiring the company to obtain recent appraisals on properties securing mortgage loans. One mortgage loan not having a recent appraisal on the property securing it was correctly non-admitted.

First, the company was to properly complete Schedule B of the Annual statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty. During the examination, it was noted that the company was not completely filling out columns eight and eleven with Schedule B of the annual statement. It is again recommended that the company accurately complete Schedule B of the Annual Statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty.

Second, the company was to establish formal underwriting guidelines for the acceptance of a mortgage loan which includes, but is not limited to, guidelines which do an extensive credit risk analysis of the potential mortgagee. The examiners noted that the company has guidelines for acceptance of loans. However, these are not in writing. Therefore, it is again recommended that the company establish formal written underwriting guidelines for the acceptance of a mortgage loan which includes, but is not limited to, guidelines which do an extensive credit risk analysis of the potential mortgagee.

Third, the company was to establish guidelines for the mortgage loan investment overall which includes, but is not limited to, the percentage of the company's assets to be invested in mortgage loans, the terms allowable for loans, the interest rate determination, and the policy on refinancing or extending the mortgage loan. The company continues to not have formal written underwriting guidelines with respect to the acceptance of a mortgage loan as an investment. General informal guidelines the company was to follow required: a) the individual must have a 20% equity in the property; b) the mortgage must be a first mortgage; c) the individual must have a source of income; d) the individual should be, but does not have to be, a policyholder of the company. Upon examiner review, the company still does not have guidelines for the mortgage loan investment includes the aforementioned items. It is again recommended that the company establish guidelines for the mortgage loan investment overall which includes, but is not limited to, the percentage of the company's assets to be invested in mortgage loans, the terms allowable for loans, the interest rate determination, and the policy on refinancing or extending the mortgage loan.

Bonds and Stock **$3,220,744**

The prior examination recommended that the company accurately complete Schedule D of the Annual Statement on all future annual statements. The examiners reviewed the company's investment broker statement provided by Dain Rauscher, and within this statement the listed call price and option date was not being carried over onto Schedule D, Part 1, Columns 7 and 8 of the annual statement. It is again recommended that the company accurately complete Schedule D of the Annual Statement.

During the review, the examiner also noted that the company has investments that have not been submitted to the NAIC's Securities Valuation Office for a rating. The examiners discussed with management about its investment guidelines, and they indicated that the company will only acquire investments that have been previously submitted to the NAIC's Securities Valuation Office. The examiners also discussed with the company's investment advisor about the investments not rated by the Securities Valuation Office. The examiners concluded that the company's investment officer had not filed with the Securities Valuation Office, as the cost of rating these securities was prohibitive. The company is now making provisions to sell those investments when it is advantageous for them to do so. It is again recommended that the company comply with the procedures of the NAIC's Securities Valuation Office regarding its invested assets.

The examiners reviewed the company's investment guidelines and it identified that the percentage of the fixed income portfolio will be dependent upon the compulsory surplus calculations, but at no time will the fixed income portion be less than 60% of the portfolio. The company's investment policy remaining investment mix of individual stocks, mutual funds invested in common stocks and other equity type investments shall not exceed the lesser of the excess compulsory surplus or 40% of the portfolio. This includes any investments in Wisconsin Reinsurance Corporation, if applicable. The examiners review of the company's investment portfolio revealed that the total bond and cash ratio to the total bond, cash, and stocks listed by the company, does not meet the defined quality distribution for fixed equity investments within its investment policy. It is recommended that the company either follow its investment policy or amend the investment policy to reflect its current investment needs.

Premiums & Agents Balances in Course of Collection

The examiners reviewed the company's Accounts Receivable Aged Report for Premiums Billed as of December 31, 2001. The examiners tested the aged balances report against subsequent receipts, and it appears that Premiums & Agents Balances in Course of Collection are being appropriately stated and are being settled in a timely manner. A review of the Accounts Receivable Aging Report for amounts over 90 days past due, indicated that the company was still admitting the portion over 90 days past due and had not properly non-admitted this amount. Although no adjustment was made to surplus due to being immaterial, it is recommended that the company comply with the NAIC's Accounting Practices and Procedures Manual, SSAP No. 6, paragraph 9, by properly non-admitting uncollected premium balances over 90 days past due.

Advance Premium

The examiner's review of advance premium consisted of selecting thirty-two samples from the December 2001 cash receipts journal. From this, the examiners checked the effective date against the date paid to verify the premium paid traced to the advance premium report. As a result of this testing, it was determined that four samples in which the premium had been paid prior to the policy's effective date were not listed on the company's advance premium report. These advance premium amounts are to be reported as a liability for statutory accounting purposes, and should not be recorded in the unearned premium reserve as reported by the company. The examiners did not expand the sample size on account of the limited number of deposits for December 2001. The four samples not found in the advance premium report were not material. Although no adjustments were made to surplus or any reclassifications were made as a result of examiners findings, it is recommended that the company comply with the NAIC's Accounting Practices and Procedures Manual SSAP No. 13, paragraph 13, by properly excluding paid premium from the written premium or the unearned premium reserve.

The examiners also reviewed the company's policy files by asking for a detailed list of policies with effective dates subsequent to year-end. The company was unable to provide the examiners with a detailed list of "new" policies with effective dates subsequent to year-end. Through discussions with company personnel, policy numbers can be selected but whether they are "new" policies or "renewed" policies is only known of each file is individually pulled and reviewed. In conjunction with reviewing the policy files, the examiners randomly selected 12 cancelled policies from a listing of cancelled policies provided by the company. The examiners were satisfied with the company's procedures are in compliance with s. 631.36(2), Wis. Stat. However, the company was unable to produce two of the Crystal Lake-Utica cancelled policies, which the company assumed as a result of the merger in 2000. It is recommended that the company comply with s. Ins 6.80 (4), (c), (1), Wis. Adm. Code. The company should maintain all records of the company's operations and other financial records related to insurance operations for a period of at least five years from the prior examination.

Underwriting

The examiners discussed with the company manager about its current underwriting practices and re-inspection procedures. The company requires an inspection to be performed on all new business written prior to the policy being issued. In 2001, the company took the following measures to analyze and re-underwrite the existing block of business assumed from Crystal Lake-Utica merger of 2000. First, the company inspected all new business and performed as many re-inspections as their staff would allow. Second, all agencies were analyzed and those with low production and/or high loss ratios were set up for termination. Finally, much of the business was non-renewed as a result of agency terminations.

The company estimates that of the 9,200 policies, approximately 1,800 or 20% of the existing business has never been inspected and it is anticipated it would take another 2-3 years to complete the re-inspection. The company's two largest lines of business, farmowners and homeowners, are re-inspected every five and eight years respectively. It is recommended that the company inspect all of its insured properties within the next three years.

Claims Adjusting

The company uses Pilon Adjusting Services, Associated Claim Services, and GAB Robbins to perform claims adjusting. The examiner reviewed the catastrophe agreement the company has with GAB Robbins. However, there are no contractual agreements with Pilon Adjusting Services and Associated Claim Service. Examiner discussion with the company manager revealed that only a “gentlemen’s agreement” exists with Pilon Adjusting Services and Associated Claim Service. It is suggested that the company develop a contractual agreement with all adjusting firms used by the company.

VIII. CONCLUSION

The examination of Manitowoc Mutual Insurance Company resulted in 11 new recommendations, 8 repeat recommendations, and 2 reclassifications. Although there were several repeated recommendations with Mortgage Loans, the company appears to be phasing out this business segment, as there has been a steady decline over the past five years. Bonds, cash and short-term investments also noted several repeated recommendations. Corporate records and the conflict of interest sections of this report also noted repeated recommendations. Therefore, these are areas where significant improvement is necessary.

The company reported a 28% decline in surplus over the past two years as a result of the following. In 2001, the company reported catastrophic wind and hail storm losses. In 2000, the May 12th storm resulted in losses exceeding $10.5 Million, in which a significant portion of these losses was due to the merged Crystal Lake-Utica book of business.

The company anticipates moderate growth over the next five years, which is mainly attributed to re-underwriting the company's entire book of business, and much of the old Crystal Lake-Utica business has been now terminated or non-renewed. The company plans to continue as a nonassessable mutual insurer by maintaining the required surplus level.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 Corporate Records—It is again recommended that minutes for all committees of the board of directors be maintained and included with the minutes of the board of directors meetings.

2. Page 25 Corporate Records – It is recommended that the company comply with s. 611.51(3), Wis. Stat., as regards the composition of its board of directors.

3. Page 26 Agent Records - It is recommended that the company comply with s. 628.11, Wis. Stat; and accurately report its agent appointments and terminations to this office.

4 Page 26 Conflict of Interest—It is again recommended that the company's directors and officers disclose all potential conflicts of interest when completing the annual conflict of interest questionnaires.

5. Page 26 Disaster Recovery Plan—It is recommended that the company update its disaster recovery plan to include the company's strategy for a management succession plan.

6. Page 27 Holding Company—It is recommended that the company file an annual holding company report annually by June 1 of each subsequent year for the immediately preceding calendar year in accordance with s. Ins 40.03 (a), Wis. Adm. Code.

7. Page 27 Holding Company—It is recommended that the company properly comply with all agreements between the company and the "agency" in accordance with s. 40.03 (3), (c), (5), Wis. Stat.

8. Page 28 Cash and Short-term Investments—It is again recommended that the company report money market accounts on Schedule DA of the Annual Statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty.

9. Page 28 Mortgage Loans – It is again recommended that the company accurately complete Schedule B of the Annual Statement in accordance with the NAIC's Annual Statement Instructions Property and Casualty.

10. Page 28 Mortgage Loans – It is again recommended that the company establish formal written underwriting guidelines for the acceptance of a mortgage loan which includes, but is not limited to, guidelines which do an extensive credit risk analysis for the potential mortgagee.

11. Page 28 Mortgage Loans – It is again recommended that the company establish guidelines for the mortgage loan investment overall which includes, but is not limited to, the percentage of the company's assets to be invested in mortgage loans, the terms allowable for loans, the interest rate determination, and the policy or extending the mortgage loan.

12. Page 31 Bonds and Stocks—It again recommended that the company accurately complete Schedule D of the Annual Statement.

13.	Page 30	Bonds and Stocks—It is again recommended that the company comply with the procedures of the NAIC's Securities Valuation Office regarding its invested assets.
14.	Page 30	Bonds and Stocks—It is recommended that the company either follow its investment policy or amend the investment policy to reflect its current investment needs.
15.	Page 31	Premiums in Course of Collection—It is recommended that the company comply with the NAIC's Financial Examiners Handbook, SSAP No. 6, paragraph 9, by properly non-admitting uncollected premium balances over 90 days past due.
16.	Page 31	Advance Premium—It is recommended that the company comply with the NAIC's Financial Examiners Handbook, SSAP No. 6, paragraph 13, by properly excluding paid premium from the written premium or the unearned premium reserve.
17.	Page 32	Advance Premium—It is recommended that the company that the company comply with s. Ins 6.80 (4), (C), 1, Wis. Adm. Code. The company should be maintaining all records of the company's operations and other financial records related to insurance operations for a period of at least five years from the prior examination.
18.	Page 32	Underwriting—It is recommended that the company inspect all of its insured properties within the next three years.
19.	Page 33	Claims Adjusting—It is suggested that the company develop a contractual agreement with all claims adjusting firms used by the company.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Sarah Haeft	Insurance Financial Examiner

Respectfully submitted,

DuWayne Kottwitz
Examiner-in-Charge